LISA D. NORDSTROM
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0314
IDAHO BAR NO. 5733

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO INCREASE ITS RATES FOR SERVICE.	**))))))**	**CASE NO. INT-G-01-3** **AMENDED COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Lisa D. Nordstrom, Deputy Attorney General, and in response to the Notice of Application, Modified Procedure and Comment Deadline issued on June 1, 2001, (Order No. 28745), submits the following comments.

On May 25, 2001, Intermountain Gas Company (Intermountain; Company) filed an Application with the Idaho Public Utilities Commission for authority to place into effect new rate schedules that would result in an overall revenue increase of approximately $27.1 million (12.98%). Intermountain supplies natural gas to approximately 200,000 customers in southern Idaho. The Commission suspended the Application's effective date until July 14, 2001 in Order No. 28752.

On July 2, 2001, Intermountain Gas filed an Amended Application seeking an overall increase of approximately $9.5 million (4.5%), rather than the $27.1 million (12.9%) requested in its original filing. To effectuate the proposed rates, the Company requests that the Weighted Average Cost of Gas (WACOG) be reduced to $0.35295 per therm. In light of the Amended

Application, the Commission extended the comment deadline to 12 p.m. (Noon) on Friday, July 6, 2001. Order No. 28771.

THE AMENDED APPLICATION

In its Amended Application, Intermountain seeks to pass through to each customer class a change in gas-related costs resulting from 1) a decrease in storage and transportation costs, 2) an updated customer allocation of gas-related costs pursuant to the Company's Purchased Gas Cost Adjustment (PGA), 3) inclusion of temporary surcharges and credits for one year related to deferred gas costs and interstate transportation costs, and 4) a decrease in the WACOG.

Intermountain also seeks to eliminate the temporary surcharges and credits from Case No. INT-G-00-01 that were included in its prices during the past 12 months. The aforementioned changes would result in an overall price increase to Intermountain's RS-1, RS-2, GS-1 and T-1 customers, and a decrease to Intermountain's T-2 customers. Because the Company seeks only to recover costs already incurred, Intermountain's earnings will not be increased as a result of the proposed changes in prices and revenues. The overall effect of the proposed changes would be an increase in the Company's Idaho revenues of $9,493,804. The net increase is made up of:

Permanent Price Changes:	
Decrease in the WACOG	($17,572,887)
Eliminating INT-G-00-01's Temporary Surcharges	(14,633,206)
Changes in Storage and Transportation Costs	(382,418)
Adjustment to Fixed Cost Collection Rate	(1,852,579)
Total Permanent Price Change	($34 ,441,090)
Temporary Price Surcharges (Credits):	
Pipeline Segmentation Credits	($2,377,070)
Overcollected Fixed Costs from INT-G-00-01	(191,946)
Overcollected Variable Costs from INT-G-00-01	(262,530)
Uncollected Wholesale Commodity Costs	46,766,440
Total Temporary Price Surcharges (Credits):	$43,934,894
Total Proposed Price Change	**$9,493,804**

Staff determined that the impact of the Company's proposal by class of service is as follows:

Customer Class	Revenue	Proposed Average Increase $ /Therm	Proposed Average Increase % Change	Proposed Average Price $/Therm
RS-1 Residential	$591,173	$0.01602	1.68%	$0.96759
RS-2 Residential	$5,114,371	$0.04287	5.23%	$0.86251
GS-1 General Service	$2,964,973	$0.03260	4.18%	$0.81325
LV-1 Large Volume *	$482,189	$0.12512	23.47%	$0.65813

* T-1 tariff price plus the Weighted Average Cost of Gas (WACOG) $0.35295
WACOG = total commodity cost of gas ÷ total purchase therms

Transportation	Revenue	Proposed Average Increase (Decrease) $ /Therm	Proposed Average Increase (Decrease) %Change	Proposed Average Price $/Therm
T-1 Transportation	$356,059	$ 0.00986	10.28%	$0.10575
T-2 Transportation	($14,961)	($0.00063)	(2.10%)	$0.02934

Permanent Changes

The permanent adjustment reflects a decrease in rates to reduce the WACOG, the elimination of the temporary surcharge from last year's tracker (Case No. INT-G-00-1), a decrease in storage and transportation costs, and an adjustment to the fixed cost collection rate. These reductions would decrease annual Idaho revenues by $34,441,191.

Temporary Changes

The temporary surcharges and credits reflect the true-up of prior-period costs deferred in the Company's PGA 186 accounts. The surcharges and credits are separated into pipeline segmentation credits,[1] overcollection of temporary and permanent surcharges,[2] and a large amount of deferred gas costs. The largest adjustment requested by the Company consists of the temporary surcharge to recover $46,766,440 in wholesale gas costs incurred in prior periods. The deferred balance has continued to grow through May of this year because gas costs incurred by the Company were higher than the revenues recovered in rates. The Company maintains that these costs have been a significant burden and need to be recovered from customers. The total amount of temporary charges requested by the Company is $43,934,894.

AUDIT FINDINGS

Commission Staff has reviewed the Company's filing and performed a limited audit. Staff has identified the following:

1. Through June 2001, the Company continued to rely on monthly market index prices and did not lock in any financial hedges to fix the price of gas for customers.
2. The Company has pursued capacity release and segmentation revenues.
3. Customers have accrued nearly $1.8 million[3] in interest from the uncollected deferral balance. At the end of June 2001, that deferral balance is estimated to be $46,766,440.
4. The Company has accrued $983,200 in additional interest charges on the uncollected deferral balance that will have to be borne by the Company and its shareholders.
5. The Company has accrued $825,639 more bad debt and collection charges than last year due to the increased price of gas paid by its customers, increased heating load

[1] Pipeline segmentation credits refer to the Company's rights to excess capacity on the Williams Northwest Pipeline. This pipeline is the only interstate line that runs through Southern Idaho. The excess capacity is "released" or sold to industrial users, marketers and others. The Company provides a credit to customers for the released capacity through a temporary credit that is trued-up on a yearly basis.

[2] The Company sold a greater number of therms than projected during the winter of 2000-2001 because of the colder-than-normal weather. Consequently, the Company collected more than the Commission authorized for a variety of surcharges and credits, including uncollected gas costs, fixed and variable transportation costs, shared revenues and a transportation refund. The temporary credits provide a way for customers to receive a refund of the overpayments from last year.

[3] According to the PGA methodology, the Company is allowed to charge interest to customers on uncollected gas costs in the amount equal to its short-term investment rate. When overcharges occur, the Company pays the same

due to a colder-than-normal winter and changes in the level pay system. These increased costs will be borne by the Company and its shareholders.

6. IGI Resources has changed the manner in which it reports to Intermountain Gas the spot market gas purchases it makes for the Company.

Staff's audit of gas supply costs, capacity releases and PGA changes revealed no irregularities other than the change in spot market purchases that is discussed below. Staff further finds that the Company would receive no additional profits from this requested increase.

Spot Market Purchases

Since the early 1990's, the Company has used IGI Resources (IGI, Resources), a former affiliate of Intermountain Industries,[4] the parent company of Intermountain Gas, as an agent to purchase gas to sell to customers. It has been Staff's understanding that other than the daily fine-tuning required by a gas utility, Intermountain has not purchased gas directly from Resources. When the Company's long-term supply contracts have not provided sufficient gas for customers, it was Staff's understanding that Resources acted as Intermountain's agent to purchase gas from one of many different producers or marketers at the best price available and billed Intermountain without any markup. The Company paid Resources a fixed fee based on volume as required in the management agreement, not a fee based on the gas price. Staff was satisfied with the arrangement because Staff was able to verify the transactions and it appeared that gas was being secured at arms-length from a variety of sources at reasonable prices.

During the course of this audit it became apparent that Staff's ability to verify the reliability of the invoices from Resources to the Company has been significantly impaired this year. Because of a change in billing, Staff was not able to verify from the invoices to the Company whether Intermountain pays for gas at cost or if the gas was purchased at the best price available. Resources' invoices no longer show the original purchase price or the identity of the seller for purchases made on Intermountain's behalf. Resources has indicated this will be changed. Staff asked for and received some additional information to show that the purchases made by the Company from Resources were reasonable. Resources provided data only for the month of March 2001. For March, Resources was able to show that gas sold to the Company

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rate to customers. The interest charged to customers only partially offsets the costs to the Company to maintain large balances of uncollected gas costs.

[4] IGI Resources was sold to BP Energy during the year 2000. IGI is no longer affiliated with the Intermountain Gas Company or its parent company, Intermountain Industries. IGI remains the gas supply agent of Intermountain Gas and the terms of the gas management arrangement remain unchanged.

was charged at a price equal to or lower than the price secured by Resources. The information for the remaining months was not received as of 11:30 a.m. on July 6, 2001 to verify for inclusion in these comments. Based on the March invoice review, Staff knows that the verification of IGI invoices still will not show that gas was purchased at the best price available. This information must be developed going forward.

Staff has also discovered that for at least the past several years, it appears Resources supplied most of the Company's short-term purchase needs with gas from its own pool of long-term, indexed-priced contracts. Consequently, most of the gas purchased by Intermountain is priced based on first-of-the-month market indexes. On April 20, 2001, Randy Schultz, President of IGI Resources, met with Company officials and Staff regarding the investigation of Intermountain Gas' PGA mechanism that recently took place.[5] While discussing the options for reducing the price of gas paid by customers, Mr. Schultz stated that on average IGI Resources secured gas for certain industrial customers at prices that were less expensive than published market indices.

Because Intermountain effectively purchases gas at market-index prices, it appears that it has not received the optimized benefits available from the cost-lowering tools Resources has used for other customers. Consequently, Staff has concerns regarding the Resources agreement whereby Resources acts as agent for Intermountain to acquire gas at cost for a management fee. Staff believes it is inappropriate to pay a management fee for the right to purchase gas at a price that will never be better than a market or index price. Intermountain should be entitled to rely on Resource's expertise to search out gas at a price that is lower than an index price. To the extent Resources acquires gas at prices below market, the savings should be passed on to Intermountain ratepayers.

Recommendations

It is imperative that Resources obtain individual supplier invoices when it purchases gas on Intermountain's behalf to facilitate Commission and Staff review. In addition, Resources must be able to show that the purchases for the Company are in the best interest of the

[5] In addition to Randy Schultz of IGI Resources, Intermountain representatives Mike Huntington, Vice President of Marketing, and Michael McGrath, Director of Market Services and Regulatory Affairs made presentations and answered questions. The Staff members present included Randy Lobb, Terri Carlock, Madonna Faunce, Michael Fuss and Alden Holm. On Monday, June 25, 2001, Staff spoke with Mr. Schultz by conference call to clarify his statements. Mr. Schultz reiterated that it is not possible to beat the market price every time, but that in some cases they are able to purchase at a price that is less than index prices for some customers.

customers. If Resources' long-term contracts are the least expensive gas available, then it is appropriate to purchase IGI gas for Intermountain. However, these purchases should be transferred at cost. If lower-cost alternatives exist, Resources should pursue what is in the best interest of the Company as its agent. Staff has discussed the need for individual invoices with Resources and with the Company. Resources has indicated that purchases will be invoiced separately beginning with July 2001 purchases invoiced in August 2001. In addition, the Company is committed to providing the documentation that shows the decision-making process followed when securing the short-term spot market purchases. Staff will work with the Company and with Resources to develop proper documentation on a going-forward basis.

Until the documentation can be reviewed, Staff recommends continued deferral of $3,505,756.35[6] until the next PGA. The Company ~~is~~ must be able to reasonably demonstrate that the spot gas purchased from Resources was transferred at cost. If the Company cannot demonstrate that such was the case, the amount associated with spot purchases in the deferral account should be excluded from recovery.

METHOD OF DEFERRAL RECOVERY

The Company's Amended Proposal

In its Amended Application filed on July 2, 2001, the Company proposes to recover the deferred $46.5 million through a temporary one-year surcharge of $0.18632/therm and reduce the weighted average cost of gas (WACOG) from $0.42296/therm to $0.35295/therm. If approved, the Amended Application will result in an average rate increase to customers of 4.5%, which is much lower than the 13% average increase proposed in its original filing. The amendments reflect reduced wholesale natural gas prices and the fact that the Company ~~is in the process of~~ has executed~~ing~~ financial hedges to fix a portion of its forward gas prices. The proposed WACOG of $0.35295 along with hedged ~~prices~~ transactions should effectively eliminate WACOG deferrals under normal weather conditions for the next PGA. Moreover, Staff estimates that without WACOG deferrals and with the elimination of temporary surcharges, the 2002 PGA rates will likely decrease by more than 20%.

[6] This figure represents the costs associated with spot market purchases in the deferral account made from July 2000 through April 2001. See Attachment A for the specific calculation of the recommended deferral amount.

Staff's Proposal

Staff proposes to freeze rates for Intermountain Gas commodity customers and approve the Company's requested transportation fixed cost adjustments for T-1, T-2 and LV-1 customers.[7] Staff recommends recovery of $43 million in deferred gas costs. Even though recovery of approximately $9.1 million would be deferred until July 2002, the Company would collect nearly 80% of the deferral in 2001. The $9.1 million deferral includes the $3.5 million recommended deferral from the audit section. Staff also estimates that the Company would recover the remaining deferral, including any associated WACOG changes, without an overall rate increase in 2002.[8] Although it is important to send an appropriate price signal, Staff believes customers do not need yet another rate increase to promote conservation.

While Staff is encouraged to see the Company taking the proactive steps to protect its customers from wholesale market risk, Staff believes it is reasonable to minimize price fluctuations in light of the two large PGA rate increases authorized last year. Staff's proposal provides rate stability by freezing rates this year and anticipates an overall average decrease of approximately ~~9%~~ 14% in rates for the 2002 PGA.[9] Customers will also be required to pay an additional $460,000 in interest as a result of continuing to defer the $9.1 million.

Staff's proposal temporarily deviates from the PGA mechanism by maintaining prices at existing commodity class rates. Individual customer class rates will not true-up this year to compensate for changes in usage and individual class variable and fixed cost components as would normally occur. Staff expects that this will likely become most apparent in the 2002 LV-1 rates. Even though Staff's proposal anticipates that residential and general service rates would decrease by ~~7 -16%~~ 11-18% in 2002, LV-1 rates could increase by up to ~~25%~~ 10% without the Company's proposed 25% rate increase this year. Staff's proposal would require the Company to track the $9.1 million deferral by class. This will avoid uniform allocation of the $9.1 million deferral among the classes, which would effectively subsidize the LV-1 Class in 2002. The various cost components will be trued-up in the 2002 PGA filing and all customers will benefit from price stability this year.

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[7] The transportation fixed cost adjustments represent a reduction in William's Pipeline tariffs and other fixed costs.
[8] Staff assumes that the WACOG will not increase beyond ~~$0.430~~ $0.467/therm.
[9] Staff assumes 5% customer growth, no changes in WACOG, and 5% interest charge on deferred balances to make this calculation.

Recommendation

In light of Staff's proposal to freeze commodity rates and approve the Company's requested transportation fixed cost adjustments, Staff recommends the following rate schedule for the 2001 Intermountain Gas PGA:

	Existing ($/therm)	Staff Proposal ($/therm)	Change (%)
RS-1	$0.95157	$0.95157	0%
RS-2	$0.81964	$0.81964	0%
GS-1	$0.78065	$0.78065	0%
LV-1	$0.53301	$0.54287	1.85%
~~Total Gas Sales~~	~~$0.82051~~	~~$0.82051~~	~~0.02%~~
Total Gas Sales	$0.82051	$0.82066	0.02%
T-1	$0.09589	$0.10575	10.28%
T-2 Demand	$0.78770	$.076634	-2.17%
T-2 Commodity	$0.00656	$0.00656	0%
~~Total~~	~~$0.67631~~	~~$0.67626~~	~~0.18%~~
Total	$0.67631	$0.67753	0.18%

CONSUMER EVALUATION

When Intermountain Gas filed its Application on May 25, 2001, both the customer notice and the press release were included in the filing. The customer notice, presented to customers in the form of a bill stuffer, was mailed out in the normal billing cycles beginning May 27 and ending June 27. Both documents met the requirements of Rule No. 102, Notices to Customer of Proposed Changes in Rates, of the Utility Customer Information Rules (IDAPA 31.21.02.102).

The requested increase, amounting to 5.23% for residential customers using natural gas to heat both their homes and water and 1.68% for residential customers heating only their homes, marks the third such increase for Intermountain Gas since July 1, 2000. Commercial customers could experience an average monthly increase of 4.18%.

As of July 6, 2001, the Commission received fifty-four (54) written comments from customers vehemently opposed to the requested increase. Only one customer thought the increase was justified. In addition, Consumer Assistance Staff registered five informal complaints directed at Intermountain Gas opposing the request to increase their rates. The Commission also received a petition signed by ninety-eight (98) Intermountain Gas customers from Rigby and Idaho Falls opposing another increase in rates without public hearings. The petitioners suggested that public service messages on television explaining why the increase should be allowed would be helpful to the elderly and homebound.

Customer comments in this case reveal concern about their ability to pay higher energy bills. Many of the complaints are from elderly customers on fixed incomes and ask simply, “What are we going to do?” Another commented, “I am a senior citizen living on $621.00 a month, I have emphysema and cannot work anymore, am I supposed to cut my medicine so I can stay warm?” Some comments reflect a lack of understanding regarding the nature of this case or the circumstances surrounding it. Some of these comments were directly aimed at Intermountain Gas: “They need to learn to budget just like any other business”; “It amazes us at the audacity of Intermountain Gas in their request for another increase”; and finally “Three (rate increases) in one year shows ineptitude in planning and possibly outright greed.” One customer wrote, “There is no natural gas shortage!” Another summed up their letter with the statement, “Once again we find ourselves begging you (the Commission) not to grant this latest increase.”

During this past unseasonably cold winter, 7,623 Intermountain Gas customers received assistance through programs such as LIHEAP, Project Share and Project Warmth, for a total of $1,313,806.00 in funding assistance. The LIHEAP energy assistance program requires that customers qualify under federal income guidelines. Assistance amounts to a one-time payment made directly to Intermountain Gas on behalf of the qualifying customer. The Project Share and Project Warmth programs are funded by donations, including those received from Intermountain Gas employees, customers and shareholders. Additional donations are made directly to the Salvation Army and American Red Cross, and are available to customers in emergency situations. Applicants need only to contact these organizations or a local Community Action Agency to apply for assistance. In addition, county welfare benefits are often available, but recipients may be asked to pay back a portion or all of the assistance.

Even with this financial assistance, Intermountain Gas mailed 61,088 disconnection notices and 16,943 twenty-four hour notices following the winter Moratorium. As a result, 4,555 customers were disconnected between March and May 2001. During the same period last year, the Company mailed 45,314 disconnection notices and 10,022 twenty-four hour notices that resulted in 3,648 customers being disconnected.

Other programs supported by Intermountain Gas include the Gatekeeper Program that specifically targets elderly citizens needing assistance and the Company’s level pay program, often referred to as “budget billing.” Many take advantage of this program because it allows customers to pay for an entire year of usage divided into twelve equal monthly payments. The payments are adjusted yearly to allow for fluctuations in usage and rate increases or decreases. Currently there are 46,500 (23.25%) Intermountain Gas customers on level pay. In extraordinary circumstances special level pay arrangements can be made to help customers manage past-due accounts. Intermountain Gas plans to heavily promote the level pay program this summer.

The normal adjustment period for Regular Level Pay customers (coded with the letter "R" on bills) is in April and May of each year. However, due to the pending rate increase request, these customers have been notified that the adjustment will be made in July. Because the Commission suspended Intermountain Gas' Application for thirteen days, customers from the first seven billing cycles in July will be notified that their adjustment will be calculated in August. Next year, the level pay adjustment period will revert back to the normal dates of April and May. Anniversary Level Pay customers (coded "A" on bills) who signed up within the past year will have their level pay adjusted in July and then again on their anniversary date.

In an effort to make its bills more informative, Intermountain Gas is working to put additional information on bills which would allow customers to see how their monthly bill is actually calculated. The Company will provide information that is customer class-specific, define the customer class, and list the appropriate rate schedule. Intermountain Gas anticipates implementation of this change in the bill format by December of this year.

RECOMMENDATIONS

1. It is imperative that Resources obtain for Staff and Commission review the individual invoices from suppliers when it purchases spot gas on behalf of Intermountain.
2. Staff recommends that Resources document the decision process followed to make purchase decisions for Intermountain Gas. Staff will work with the Company and with Resources to develop appropriate materials on a going-forward basis.
3. Staff recommends continued deferral ~~without interest~~ of $3,505,756.35[10] until the next PGA. In the meantime, Staff will continue to verify that the Company can reasonably demonstrate spot gas purchased from Resources was transferred at cost and at the least cost available for theses spot purchases. If the Company cannot

[10] This figure represents the costs associated with spot market purchases in the deferral account made from July 2000 through April 2001. See Attachment A for the specific calculation of the recommended deferral amount.

demonstrate that such was the case, the amount associated with spot purchases in the deferral account should be excluded from recovery.

4. Staff recommends that the Commission leave Intermountain Gas commodity customers' rates unchanged, deny the Company's proposed rate increase, and approve the Company's requested fixed cost transportation adjustments.
5. Staff recommends the Company continue to file a status report on the deferral account balance on a monthly basis. Staff also recommends the Company update the Commission and Commission Staff on a quarterly basis with updated WACOG forecasts.

Respectfully submitted this day of July, 2001.

Lisa D. Nordstrom
Deputy Attorney General

Technical Staff: Alden Holm
Dan Graves
Michael Fuss

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